katko CAPITAL	# Policy on sustainability and ESG risks	Reference : VIII-7 Version : 2.0

Liability	
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Purpose of the procedure
The policy on sustainability and environmental, social and governance ("ESG") risks was created as part of the process of taking extra-financial criteria into account in the asset selection and management policy for portfolios under management and/or advice. It also includes the failure to consider the principal adverse impacts on sustainability (PAI).

List of tools/applications used	
Tools	Katko Rating
Applications	

1st level control	Archiving (oui/non)	Archiving location

Management of procedure updates				
Version	**Date**	**Status**	**Author**	**Nature of changes**
1.0	26/01/2023	Validated	KATKO CAPITAL	Creation
2.0	28/12/2023		KATKO CAPITAL	Revision

Content

From the outset, Katko Capital's mission has been to help individuals, families and institutions participate in Europe's economic, industrial and financial development, while increasing their wealth in a sustainable way. To achieve this, Katko Capital believes that good governance is the key to enabling companies to withstand all types of hazards, including social and environmental ones, and thus ensure their long-term development.

The purpose of this document is therefore to detail Katko Capital's approach to managing what is now commonly referred to as sustainability risk.

1. Definition and manifestation of the sustainability risk

Sustainability is defined as the character of what is durable (Petit Robert) or the character of what is achieved according to the criteria of sustainable development (Petit Larousse). Katko Capital's sustainability risk is therefore one or more events or situations that may call into question the sustainability of the funds it manages and the value of the companies whose securities make up the investment portfolio.

Sustainability risk management therefore involves, on the one hand, anticipating the impact of purely random exogenous events, i.e. events over which companies have no control, such as climatic hazards, and, on the other hand, controlling the impact of companies' activities on society and the environment. The aim of sustainability risk management is to ensure the long-term future of each company and therefore the value of the shares held in the funds managed by Katko Capital.

The exogenous sustainability risks that companies must anticipate in order to reduce their sustainability risk are as follows:
- Environmental risks such as climate disasters.
- Political and geopolitical risks.

Endogenous sustainability risks, which are directly linked to the impact of each company's activity, are as follows:
- Environmental risks: direct or indirect discharge of materials harmful to the environment, degree of exploitation of natural resources such as water, minerals, forests, etc.
- Social risks: relations with employees, customers and suppliers. Tax policy, anti-corruption policy, etc.

Controlling these directly controllable risks helps to maintain a good reputation and protect against any type of penalty, particularly financial, which could jeopardize the company's financial equilibrium and therefore its long-term survival.

The complexity of sustainability risk management requires its assessment to be fully integrated into all corporate decision-making processes. This is why we are convinced that corporate governance is the key to controlling sustainability risk. Consequently, the integration of environmental, social and governance criteria into Katko Capital's investment decision-making process is carried out entirely by the management team.

2. Integrating sustainability risk into the portfolio management process

Sustainability risk assessment has been an integral part of Katko Capital's management process since its inception. For each investment, this assessment is carried out entirely by the management team without any intervention from outside the company or from a separate internal "ESG team" not involved in investment decision-making.

Katko Capital's sustainability risk analysis is based on a proprietary tool, Katko Rating, whose rating system makes it possible to distinguish companies whose sustainability risk is under control from those whose risk is insufficiently controlled.

Katko Rating consists of a grid of 24 criteria divided into the following 3 categories:
1. Competence and track record of governance bodies (5 criteria)
2. Alignment of interests between shareholders, management and employees (12 criteria)
3. Risk management (7 criteria)

The analysis of the skills and track-record of governance bodies comprises 5 criteria for rating the skills of senior management and the Board of Directors and ensuring that they are in line with the company's strategic challenges.

The alignment of interests rating measures the consistency of interests between the company's employees, management and shareholders. 12 criteria are used to define an average score for this section.

The third section, on risk management, analyses the way in which the company is organized to deal with the main risks linked or not to its activity, including social and environmental risks.

Katko Rating's rating aims to be as factual as possible. The management team maintains an identical governance database for each company analyzed. It relies mainly on public information published by these companies.

The absence of a standard for social and environmental reporting prompts us to be extremely cautious about the use of the data provided. The ESG ratings issued by the numerous rating agencies still lack maturity in our view. Katko Capital therefore supports initiatives to standardize environmental and social reporting. For example, Katko Rating integrates the ratings given to companies by the Carbon Disclosure Project (CDP) for environmental risks. To date, we are not aware of any comparable initiative in the social field.

3. Katko Capital initiatives

Through its voting policy and its participation in each general meeting of the companies in which the funds are shareholders, Katko Capital promotes its principles of good governance.

Katko Capital also supports initiatives that require economic players to be more transparent and to standardize the environmental and social indicators communicated to investors. Katko Capital is a member of the Carbon Disclosure Project. The CDP is a global not-for-profit organisation that manages the world's leading environmental reporting platform and holds the largest corporate environmental database aligned with the principles of the TCFD (Task-force on Climate related Financial Disclosure).

Katko Capital is a signatory to the CDP's 2022 Science Based Targets campaign, which calls on the world's 1,200 largest emitting companies to set science-based emissions reduction targets, aligned with the trajectory of limiting global warming to a maximum of 1.5 degrees Celsius.